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Message Text

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17
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
---------- 126591
R 151408Z SEP 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 7068
INFO AMEMBASSY AUBU DHABI
AMEMBASSY BONN
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 12456

EXDIS

EO 11652: GDS
TAGS: EFIN, EG
SUBJ: MIN OF FINANCE'S VIEWS ON DEFICIT FINANCING

RER (A) CAIRO 11834 (NOTAL), (B) CAIRO 12097 (NOTAL),

1. FOLLOWING SUMMARIZES VIEWS ON VARIOUS ECONOMIC QUES-
TIONS OF MINFIN ABU ISMAIL OBTAINED DURING CALL SEPT 14
BY CHARGE. AID DIR AND ECONOFF TO FOLLOW UP AMB'S DISCUSSION
WITH PM IN REF A. MOST INTERESTING POINTS TO EMERGE FROM
CONVERSATION WERE MINFIN CONFIRMATION OF $250 MILLION GULF
ORGANIZATION FOR DEVELOPMENT IN EGYPT (GODE) COMMERCIAL LOAN
GUARANTEE AND DIRECT GODE BOP SUPPORT LOAN IN EQUAL AMOUNT
(REF B), PLUS ABU ISMAIL'S EXPRESSION OF OPINION THAT GOE
HAS GONE AS FAR AS IT CAN FOR SOME TIME TO COME WITH REFORMS
URGED BY IMF.

2. SEVEN POINTS AND HAT PASSING: ABU ISMAIL SEEMED UNAWARE
OF AMB'S DISCUSSION WITH PM ON THESE SUBJECTS. QUESTIONED
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ABOUT STATUS OF GOE EFFORTS TO MARSHAL BILATERAL SUPPORT

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TO MEET 1976 BOP DEFICITS, MINFIN NOTED HE HAD TALKED
RECENTLY WITH JAPANESE AMB AND VISITING OFFICIAL FROM TOKYO
(TAKAYAMA, ECONOMIC ADVISOR TO PM), RECEIVING SYMPATHETIC
BUT EVIDENTLY NONCOMMITAL RESPONSE. HE HAS INTENDED TO SUMMON
WEST GERMAN AND FRENCH AMBS, BUT BOTH HAVE BEEN OUT OF COUNTRY
OR OTHERWISE UNAVILABLE. ABU ISMAIL GAVE CLEAR IMPRESSION
HE LOOKED TO USG TO CARRY BALL ON APPROACHES TO EEC AND SUCH
WHEAT SUPPLIERS AS AUSTRALIA AND CANADA. WHEN QUERIED ON
GOE INITIATIVES TO SEEK IRANIAN LOAN GUAANTEE, MINFIN SEEMED
UNINFORMED ON POSSIBILITIES, DISCUSSING AT LENGTH INSTEAD
EXTENDED AVAILABILITY HE HAS ARRANGED OF 1975 IRANIAN LOAN
FUNDS TO PERMIT 1976 DRAWINGS. (NOTE: WE ASSUME THIS REFERS
TO REVISED ACCOUNTABILITY OF $200 MILLION LOAN EXTENDED
OCT 1975.) DESPITE HIS STATIED UNFAMILIARITY WITH GUARANTEE
QUESTION, HE ACKNOWLEDGED FURTHR INVESTIGATION OF MATTER
IS IN ORDER AND COMMENTED THAT HE WOULD CALL IN IRANIAN AMB
FOR TALK AT EARLY DATE. WE URGED THAT HE DO SO, AND THAT HE
MAKE FURTHER EFFORTS WITH FRENCH, GERMAN, AUSTRALIAN AND
CANADIAN AMBS.

3. GODE: INFIN CONFIRMED AGREEMENT HAS BEEN REACHED BETWEEN
GOE AND GODE ON GUARANTEE FOR $250 MILLION MEDIUM-TERM LOAN
TO BE PUT TOGETHER BY CHASE MANHATTAN AND CITIBANK, PLUS
DIRECT GODE BOP SUPPORT LOAN OF $250 MILLION. HE NOTED
SAUDI FINANCE MINISTER ABA AL-KHAIL HAD PUT SEAL OF APPROVAL
FOR GODE ON PACKAGE. ABU ISMAIL HOPES ALL NECESSARY DETAILS
CAN BE COMPLETED BY MID-OCT, CITING ONLY COMPETITION BETWEEN
CHASE AND CITIBANK FOR EXCLUSIVE AUTHORITY TO ARRANGE LOAN
AS POTENTIAL STUMBLING BLOCK. CHARGE SUGGESTED LETTING
CHASE HANDLE THIS PACKAGE AND CITIBANK BUT TOGETHER SIMILAR
ONE BASED ON IRANIAN GUARANTEE. MINFIN THOUGHT THIS WAS GOOD
IDEA BUT DID NOT GIVE IMPRESSION HE WOULD MAKE NECESSARY
FOLLOWUP.

4. IMF REFORMS: MUCH OF CONVERSATION WAS DEVOTED TO EX-
POSITION BY MINFIN WHY IT IS POLITICALLY INFEASIBLE TO IM-
PLEMENT ANY ADDITIONAL REFORM MEASURES URGED BY IMF, NOT ONLY
PRIOR TO ELECTIONS, BUT FOR SOME INDETERMINATE PERIOD OF
TIME TO COME. ABU ISMAIL STATED GOE AND IMF ARE "MARCHING IN
SAME DIRECTION", BUT THAT DIFFERENCES OF OPINION EXIST BETWEEN
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THEM ON DEGREE TO WHICH REFORMS CAN BE UNDERTAKEN. HE SAID
FLATLY THERE HAS BEEN ENOUGH IN WAY OF REFORMS THIS YEAR,
WHICH THEMSELVES LED TO INCREASED PRICES AND RESULTANT
CIRTICISM, AND WOULD NOT BE DRAWN OUT ON WHEN FURTHER PRO-
GRESS COULD, IN HIS OPINION, BE MADE. MINFIN COMMENTED HE
HAS DISCUSSED QUESTION WITH PRES SADAT, WHO, HE SAID, IS IN
ENTIRE AGREEMENT WITH ASSESSMENT THAT SABILITY REQUIRES
PROPER SOCIAL SETTING BEFORE FAR-REACHING IMF MEASURES CAN

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BE INTRODUCED INTO ECONOMY ALREADY UNDER SEVERE INFLATIONARY PRESSURES. HE NOTED IN THIS CONNECTION "WE (THE GOE) ARE NOT WORKING IN A VACUUM."

5. SO THERE IS GOOD NEWS AND BAD NEWS FROM MINFIN. GOOD NEWS IS CONFIRMATION OF GODE PACKAGE, WHICH WILL GO FAR TO OFFSET FX DEFICIT AND TO BOLSTER FINANCIAL CONFIDENCE IN EGYPT'S ABILITY TO PAY ITS BILLS THIS YEAR IF PUT TO-GETHER EXPEDITIOUSLY (BUT ABU ISMAIL INDICATED REMAINING UN-FINANCED DEFICIT IS AT LEAST $500 MILLION). BAD NEWS IS OPPOSITION BY RANKING GOE OFFICIAL TO ADOPTION OF FURTHER IMF RECOMMENDATIONS AFFECTING DEVELOPMENT PROSPECTS OF EGYPT AND, IMPORTANTLY, DONOR NATION ATTITUDES TOWARD FUTURE BILATERAL FINANCIAL SUPPORT OF DEFICIT-RIDDEN ECONOMY. IMPORTANCE OF ABU ISMAIL'S VIEWS ON REFORM QUESTION CAN BE OVERSTATED DESPITE FACT HE HOLDS FINANCIAL PORTFOLIO, HOWEVER, HE IS HIGHLY POLITICIZED MINISTER WITH SEEMINGLY INFLEXIBLE POSITION ON DANGERS OF ANY ECONOMIC MEASURES TENDING TO ADD TO INFLATION IN SHORT RUN. WHETHER OR NOT HIS PRECISE VIEWS ON IMF REFORMS ARE HELD ELSWHERE ON POLICY-MAKING LEVEL IN GOE IS NOT CLEAR, BUT IN ANY EVENT ABU ISMAIL IS ONE OF MINISTERS MOST OFTEN RUMORED TO BE SLATED FOR REPLACE-MENT IN POST-ELECTION ADMINISTRATION. FINALLY, WHILE IT IS NOT NEWS, ABU ISMAIL CONTINUES TO BE LETHARGIC ABOUT TRYING TO GET OTHER COUNTRIES TO HELP BAIL OUT EGYPT. LIKE OTHER MEETINGS WITH HIM, THIS ONE WAS FRUSTRATING AND NOT VERY PRODUCTIVE.
MATTHEWS

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